Think Ahead podcast – Season 3

Episode 1 – Beyond greenwashing: How ESG became a corporate battleground

Sergei Guriev [00:00:08:01]

Welcome to Think Ahead, a podcast from London Business School, where we bring you cutting-edge research, real-world insights, and expert analysis to address the most pressing challenges that businesses and their leaders are facing today. I'm your host, Sergei Guriev, Professor of Economics and Dean at London Business School.

Today, we are diving into the ESG debate and why it's become one of the most polarising and misunderstood topics in business right now. What started as a push for more responsible companies has, in many cases, turned into a political battleground. Companies that once proudly waived the sustainability flag are now scaling back, rebranding, or going quiet altogether. So, what's really going on here and what does it mean for the future of corporate responsibility?

From fragile market incentives to internal corporate power struggles, we'll unpack why the political backlash matters, what it tells us about deeper systemic issues, and how business leaders can respond with clarity and courage. Let's get into this.

I'm joined today by two outstanding guests, Ioannis Ioannou, Associate Professor for Strategy and Entrepreneurship at London Business School, and Anna Lungley, Head of Sustainability Consulting at Fujitsu. Ioannis, Anna – welcome to the podcast.

Ioannis Ioannou [00:01:28:00]

Thank you very much for having me.

Anna Lungley [00:01:29:13]

Thank you for having me.

Sergei Guriev [00:01:30:18]

Let's talk about what's happening in the sustainability space right now. Where are we in terms of what used to be non-controversial ESG agenda, and now looks like a political issue, with the backlash throughout the world, but also especially in the United States? Ioannis, what do you think is happening right now, and what would you say business leaders are supposed to do today?

Ioannis Ioannou [00:01:56:10]

The short answer is that the landscape of sustainability, ESG or social responsibility, whatever you want to call it, is that it's becoming very complex. And there is no sort of one answer that would cover all the geographical regions around the world.

The way I understand it is that first, in the US, it's a purely political issue. I would even go as far as say that ESG is collateral damage in a broader ideological war. As I often say even to our students, if you walk down the street in the US and you say to someone, what is ESG and do you believe in it, they'll have no idea what you're talking about, unless you're walking on Wall Street. So, the idea that ESG is sort of a household sort of term that people use and then you post it is just simply not true. I think in the US, it's part of the ideological battle that includes anti-immigration policies, anti-women's rights, anti-LGBTQ rights, and so on and so forth. Therefore, the incentives or perhaps I should say the motivations behind the backlash I think are entirely different compared to other parts of the world.

So for instance, if we were to talk next about the European Union, clearly we know from the Draghi report that the European Union has an issue with productivity, it has an issue with competitiveness, and therefore the new regulations, for instance the new sustainability disclosure regulations or the due diligence regulations, come across as part of the problem of the lack of competitiveness and low productivity in the European Union. Therefore, I would say that in the EU, it's not a matter of inherently anti-sustainability or anti-ESG motives, but rather, it comes across as a matter of priorities.

But the last thing I want to say though is that we should not always assume a US-centric view of the world. For instance, by some estimates, 85% of the world's responsible investment is actually in Europe. It's not in the US. The US is the country that also abandoned the Paris Agreement. So, it's not that the US has always been the leader in climate and now it's a huge disappointment.

And of course, there's the rest of the world outside of the EU and the US. For instance, when we do global experiences in Southeast Asia, for instance, of course for them, sustainable development is the only way to development. And many folks even expect that in the next COP that's taking place in Brazil, China will step up and fill the power vacuum that the US is leaving behind.

So my first piece of advice — and I'm sure we'll go into more details — to business leaders is that in the same way that in geopolitics we have the emergence of regionalism and therefore different parts of the world will need a different strategy or approach, I strongly believe that in general, on corporate sustainability, we need to have this fragmentation in mind and appropriately address different parts of the world depending on where are we based, where are we headquartered, where we have operations and most of all, where our key stakeholders are.

Sergei Guriev [00:05:00:11]

Thank you, and indeed the climate and nature of global existential challenges, so we want countries which are behind on sustainable agenda today actually to catch up, to accelerate. And so, if we are saying this particular country or region is lagging behind that particular region which is at the frontier, we want to pay attention to countries which are lagging rather than leading this change as well, because every contribution to the global solution of the climate and nature crisis is very much welcome.

Anna, what are you observing? How is business reacting to this backlash? How is today different from what we've seen in recent years and decades in terms of sustainability agenda?

Anna Lungley [00:05:48:10]

Well in some ways what's happening today is not unusual. I've been working in this agenda for decades now and sustainability goes up and down the priority list depending on the political context and also depending on the leadership in place at the time. So, it's not unusual and one thing I would say is that sustainability may go underground, but it never goes away.

So, I think you talked about the different names for example, you know we'd call it CSR or ESG. I think today, most organisations will be focused on resilience and adaptation because actually, the reality is the change is happening. And we talk about the fact that this COP is not going to be about policy agreement. It's going to be about implementation. People are going to be looking at solutions and businesses will be there on the front line. The capital markets will be looking at how they invest over the long term as well. So, I think action will take place and even when we come to New York Climate Week — we're in the middle of London Climate Week at the moment — the conversations will take place. They just might take place behind closed doors.

So, what we are saying to organisations at the moment and what we're hearing this week is it's time to recalibrate, focus very much on the existential threats facing your business, look at where they overlap with your core business priorities.

I've been in a number of platforms this week around AI for decarbonisation, for example. And when we look at predictive analytics or root optimisation, we know that they can deliver decarbonisation impacts of 15% to 20% and in some case 50%. But they also drive resilience and better customer service and optimisation and efficiency and energy reduction. So, where those areas overlap, make them the priority and centre your narrative around that. And I think that that's how organisations will get through this process to the next political regime and change.

Sergei Guriev [00:07:38:13]

Thank you very much. That's very optimistic. Ioannis mentioned that the US has left the Paris Agreement. It did it twice. It left and rejoined and left again. And indeed, as you said, Anna, certain things come and go in waves. Thanks for this optimistic view.

Talking about how businesses actually address those issues, let's talk about corporate governance challenges, incentives within organisations, potential for, say, greenwashing — that is also a word that has been used a lot.

So, Ioannis, how do you see corporations addressing the corporate governance issues standing up to potential market failures or pressures from investors? What is the corporate governance challenge in responding to the ESG agenda?

Ioannis Ioannou [00:08:26:18]

I want to build on what Anna was saying and double down on what she said actually when she said that, well, we need to face reality. And the reality is that no matter what the politics is, the underlying environmental and social issues that the world is facing, such as, for example, overshooting the planetary boundaries, having huge income inequalities within and across countries and all of those social processes that are currently, well, to put it mildly, in tension, right? They've not gone away. If anything, they've gotten worse.

So, even if, you know, you wanted to be blind to the politics, how could you possibly ignore the underlying reality? And that's where organisations, of course, are facing challenges, because if we talk about US companies, for instance, they have the harsh reality, "these issues that are affecting my business model" – at the very least, they're creating risks. And there's also opportunities, because some of these open new markets, right? But at the same time, I need to navigate this external process.

And typically, I think, similar to sustainability implementation, you mentioned greenwashing earlier, I think there's a number of inertia or challenges in terms of why is it that companies say one thing, and maybe they're willing to do one thing, but are utterly incapable or unable to do what they said they would do. And I think, broadly speaking, there are structural elements here, of which governance may be one.

And one thing that I've seen with companies is this idea of the fallacy of the parallel tracks. So, in governance, the Chief Sustainability Officer has accountability, but has no authority. Well, how are you going to then implement if you only have accountability with no authority? Sometimes, whatever they do on sustainability is more external looking – in a good way, though.

So let me give you an example. Let's say that, you know, I have several plants, and for every plant, I collect – accurately collect – all the information, from carbon emissions, energy efficiency, everything. But I also collect information about the cost of production. And at the end of the day, I come and I reward the plant manager on the reduction in the cost of production. Whereas all the other numbers, I only gather to respond to report externally. Well, guess what the plant manager is going to focus on? So, in other words, this idea of the parallel internal structure creates this gap where, let's call it the commercial arm of the business, does not really embed and inherently link to the sustainability aspect of the business.

So that's one of the reasons why, you know, we need a more unified governance. For instance, we've seen companies that have sustainability as a formal board responsibility. We have seen companies where they have a subcommittee at the board level that oversees sustainability issues in the same way that they oversee risk or executive compensation.

Another key element of governance is that stakeholder engagement cannot be ad hoc. Many companies out there, you know, they worship the supreme being, which is the shareholder. And everyone else is a contract. Well, that way, if you treat your stakeholders that way, you will never build the intangible assets that you need in order to manage the complexity that we were talking about earlier. But that also needs governance and it's a process through which you engage, you have a dialogue, you understand what's a risk, what's an opportunity, what are the objectives of your stakeholders, what's material for them, not just what's material for you, where do the two overlap and therefore build that more trusting relationship over time.

So, for all of those reasons, it's going back to what we've been saying for a long time, actually, that sustainability cannot be piecemeal. And sometimes that's why so many companies try to take the shortcut, because it requires real engagement, requires time, investment, commitment, sometimes experimentation and risk, whereas greenwashing, until recently, was not even a risk. You just tell the story – a fake story, right?

Sergei Guriev [00:12:21:02]

A misleading story.

Ioannis Ioannou [00:12:21:23]

Misleading story, yes, misleading story. And I mean, that's probably why we have seen regulators, especially in the UK, you know, the advertising authority, the Competitions and Market Authority, paying so much attention in recent years to greenwashing.

Sergei Guriev [00:12:38:17]

I think you're touching on a very important issue. As a Professor of Economics, I strongly believe that people respond to incentives. And as a Dean, a CEO of an organisation, I know where CEOs' incentives are coming from. You said people at the top worship shareholders – the reason is shareholders can fire you. They can also give you a higher bonus, right?

So, and today in the US, more and more CEOs, many more CEOs are now standing up and they're saying, my fiduciary duty to the shareholders is to maximise shareholder value. And this is the main incentive, which the CEO is now not ashamed to pronounce. And in that sense, unless we address this issue of convincing the CEOs that actually long-term shareholder value is aligned with the ESG agenda, reputational and regulatory challenges are there.

I think this argument, you can call it the devil's advocate, but this argument is still there. Shareholders will be a primary audience simply because these are the people who pay you and these are the people who hire and fire you. And in that sense, incentives are not going to go away. And the question is how we can align incentives of businesses with the ESG agenda, if you want to promote an ESG agenda.

Anna, what would you say? How can we actually align businesses, strategies and incentives with a long-term sustainability agenda?

Anna Lungley [00:14:05:22]

Well, I think it's actually really interesting. And I think some people often forget what ESG actually is within the corporate context. And it is a framework for integrating the environmental, social and governance factors into your core business strategy and decision-making because it is important to stakeholders.

So much broader context here, and that includes your employees who want to show up and work for you. It also includes your consumers who potentially want to buy from you. And of course, when it comes to investors and it comes to insurers, and I think that's a new stakeholder that we need to increasingly consider, they want to know that they're de-risking their investment and they're going to get maximum returns as well. But those returns will always be constrained if we're thinking about it in the short-term.

So, a number of businesses today have unsustainable business models. Businesses that simply won't be here in five to ten years' time. And that's because they're based upon resources that they've always taken for granted as being free and unlimited. And suddenly those resources are scarce, and they have a price.

So, for investors, you're not just looking at short-term return. You're looking at security and long-term investments over time. So, investors are looking for ESG.

They want to screen them, and you can now be excluded quite simply, from investment decisions if you don't have the right profile as well. So, I think there is this short-term/long-term tension that we've always seen.

And Ioannis, you talked about the kind of political and ideological polarisation. I think that combined with the short-term/long-term tension – combined with, of course, economic and geopolitical instability, which we're seeing at the moment – a lot of organisations are simply having to recalibrate and refocus their sustainability efforts to deal with the situations that they're facing at the moment. So that dynamic is creating that kind of market shift. But we do know that it drives positive returns.

And I think anybody who has read, I'm sure you've read Paul Polman's 'Net Positive' book. It talks about the classic Unilever case study. 74% of their portfolio and profit actually coming from their sustainable product line and 69% growth within the first eight years – what investor wouldn't want to see that type of return? So, the business case has been proven time and time again.

Ioannis Ioannou [00:16:27:10]

If I can add something to what Anna was saying, Sergei, I think that – and build on what you said as well about incentives – I think, well, first of all, there's no such thing as a shareholder.

Different shareholders may have different time horizons, different investment strategies, different priorities. So I think the blanket statement, "it's always the incentive to the shareholder" – well, right, but if you are a pension fund in the Nordics and you have a 50-year planning horizon or investment horizon, you're going to behave a lot differently with respect to climate change, biodiversity loss or inequality compared to a hedge fund, for instance, right? So, it's very important to understand the diversity of shareholders because then that creates the challenge of, well, why is it, for instance, that pension funds tend to behave more long-term versus other types of investors.

The second sort of thing that I wanted to mention, because you mentioned, okay, well, kind of said, these are the incentives we need to convince them, as you mentioned. Typically, these days, I tend to set the bar a bit higher in the following sense: capitalism is not the same today as it was 10 years ago and definitely not as it was 20/30 years ago. And although we have, and I have personally worked on the so-called business case of sustainability, I came to think, especially recently with the backlash, that although that was a good starting point, it cannot be the end point.

Because in some ways, by advocating the business case, we're essentially telling businesses, you need to work and stay profitable within the current system, as opposed to changing the system. And what do we know about the current system?

It's divorced from reality. That's exactly why we have overshot the planetary boundaries. That's why we are facing all these income inequalities.

The current economic system — it is true that it brought a lot of people out of poverty, it led to economic development and so on and so forth. But now we're facing these global challenges that this system is not fit for purpose. So, in some ways, if companies compromise for a business case within such a constrained system that is divorced from reality, then yeah, we might have profitable businesses, but we haven't solved any of the global challenges.

So I would say that the bar now is to look at ESG sustainability, frankly, as a political economy project, whereby the ultimate goal is, of course, to scale up all of these businesses that are profitable, that have business cases that do contribute to the resolution of the problems, but also those businesses that are courageous enough to say, and also the system needs to change, right, in terms of the system actually rewarding sustainable behaviours as opposed to penalising them.

Sergei Guriev [00:19:16:01]

Yes, so this courage is actually an expectation that the system will change as Anna said and I will pick up the business case assuming that the system will change in that direction so my bet will actually play out and I'll get the positive returns, net positive returns from my sustainable investment.

Let me come back to the issue of different shareholders. Indeed, we actually had Nicolai Tangen, CEO of a Norwegian pension fund speaking here at the School and you can watch the conversation on our website. And we talked about the horizon and indeed, as you rightly said, for a Norwegian pension fund, the issue is a long-term horizon. And of course, in the long run, as Anna said, certain business models are not sustainable. And so, these investments over a 50-year horizon are net negative.

#So, the problem is, as you said, shareholders are different and we arrive at that political economy at the shareholder level. It's like in politics, some people vote left, some people vote right, and the same actually may arise among shareholders.

And there is an interesting idea, like in politics, we use deliberative democracies, democracy tools – citizens' juries, citizens' assemblies – to bring people together, to have them deliberate over issues.

There is now a new idea promoted by Nobel Prize winner Oliver Hart, Chicago Booth professor, Luigi Zingales and Yale professor, Hélène Landemore. They are pushing for deliberate democracy at the shareholder level, shareholder assemblies, where they would randomly pick shareholders, get them to talk to each other, and work out a case for sustainability. Say, maybe we want to sacrifice some short-term returns, but promote long-term welfare. I found this idea very exciting. We've not yet seen that being implemented, but actually at the political level, those citizens' assemblies have made a lot of good things.

I would like to come back to the issue that you mentioned about different groups of stakeholders, Anna. And indeed, here, do you observe the generational change? You are talking about employees, consumers. Investors are usually less subject to generational shift. These are all middle-aged, mostly white men, who probably believe in this fiduciary duty that I need to maximise the return for my stakeholders, for my shareholders. But as you said, consumers change, workers change. Do you observe that with time, a lot more stakeholders are sustainability conscious?

Anna Lungley [00:22:01:08]

Absolutely. We see it increasing over every single generation. I think what's exciting about that is we often talk about the net-zero transition and the fact that demand-side activation will deliver up to 70% of the emissions reduction required. These changes won't necessarily happen unless societal shifts happen at the same time.

So that pull from consumers and citizens is moving markets. It is moving brands to bring new portfolios to market. And of course, that's a youth growth opportunity. So that's helping to unlock investment at the same time. And when you talk about these coalitions coming together, I think what is really exciting this week in London is we are seeing investors in the room with climate-tech startups in the room with businesses, all coming together to try and find that ecosystem of solutions and how we do that.

The WBCSD, the World Business Council for Sustainable Development, published a report this week. They've been analysing their members. There's 250 members of WBCSD, the CEOs of the world's biggest businesses. And together, they produce about 26% of global emissions.

So, a massive force within that room working across value chains and actually bringing those people together who want to drive that systemic level change with the investors into the room is really, really powerful as well and the solutions providers. And I think we've always struggled to tackle value chains and systemic change at that level today. But what's changing now?

And it's interesting, Ioannis and I were talking earlier, you mentioned John Elkington and his amazing book, ‘Green Swans’. And in it, he talks about these moments in time where you see the acceleration in the adoption of technology. You see shifting consumer societal shifts and a changing regulatory environment, as we talked about earlier. And all of this comes together to create this magical moment in time, when we can see those systemic changes to the system that we need.

Ioannis Ioannou [00:24:02:08]

We often do not talk enough about that positive case that you just mentioned, Anna. A lot of times, what do we talk about? Stranded assets, right? So, these assets that may be overvalued today, but in a world that ought to be sustainable, they're not going to have that value.

However, what we don't talk about is all these technologies that you mentioned that I personally think are undervalued, because had the system been aligned, and realised that there are so many sustainability challenges we ought to be fixing, then the system ought to be recognising a lot more value to these assets than it currently is.

So I do believe that we need to, I don't know what the right term is, but we need to find a term for the mirror image of stranded assets, maybe undervalued assets or something more imaginative, but to capture those opportunities or technologies that exist today, are sustainable, but are not valued as such, because the economic system or the financial system, it's geared towards the shorter term, which links back to this idea of Green Swans, because those may well be the technologies that may tip the system.

Sergei Guriev [00:25:10:02]

Absolutely. So different investors have different expectations on the speed of green transition, on the arrival, the probability of arrival of Green Swans, and there are some optimistic investors who can make a lot of money if they invest in those green-friendly, undervalued assets.

Anna, I would like to come back on the issue that was already raised by Ioannis, which is the issue of internal power struggles and internal incentives in the corporation, talking about executives rather than, say, investors or customers, when different people within the organisation, board committees, plant managers, chief sustainability officers, try to coordinate or sometimes compete for resources within the company. How does that work in practice? Would you give us any examples of how to address those power struggles within a corporation?

Anna Lungley [00:25:59:20]

Yes. Well, I think sustainability transformation is like any other business transformation. You know, it's absolutely critical to have that culture and the reinforcement in place within the system. And that comes around creating that compelling narrative that gets people on board and making sure they have the skills.

But it's also, how do we tie executive remuneration to things like ESG to really prioritise investment and drive change? And when I've done that with organisations in the past, for example, at Dentsu, it really does unlock focus. And really importantly, it brings the finance team into the conversation in a way that's so important.

The other way that we've done that, for example, at Dentsu, we actually hardwired £100 million of revolving credit to ESG as well, which actually created incentives or discounts depending on whether we achieved our targets. And again, you know, that does drive rapid prioritisation and focus within an organisation, so I wouldn't underestimate how important that is.

Sergei Guriev [00:26:59:06]

So we are coming to the end of our podcast. And at the end of the conversation, I usually ask each guest for a one-sentence answer to a signature question. This question today is obvious. Thinking ahead, how can business leaders navigate this constantly shifting landscape of sustainability and corporate responsibility with confidence?

Ioannis Ioannou [00:27:20:04]

That’s a great question. Two things. As a leader, you ought to ground yourself in objective reality, not in political reality, in objective reality, in which case, we need to account for the grave environmental and social challenges that we are facing today. Once we understand that that's the objective reality, we can then extrapolate what it means for our business, what it means for our stakeholders, how do we stay the course?

The second piece of advice: ownership and accountability. This is not someone else's problem. This is everybody's problem, both personally, as well as organisationally. So, for leaders that want to stay the course, the message to convey to everyone in the organisation and their stakeholders is that every one of us, in many capacities, has ownership of this problem, these environmental and social problems, that is, and accountability for them. Once we assume that level of personal, corporate, institutional responsibility, then we'll have a very fair chance of solving these issues.

The sustainability landscape we see today, in my view, is only a temporary diversion. It will eventually come back on the agenda, inevitably, and the companies that make those investments today, build those messages today, build those cultures today, will be the ones that will be best positioned when this dust settles, when this diversion ends.

Sergei Guriev [00:28:44:02]

Thank you, Ioannis.

Anna — your piece of advice for a business leader who is now navigating this shift in ESG landscape.

Anna Lungley [00:28:51:12]

I would say we need pragmatic and ambidextrous leadership. So, leaders who can focus seamlessly on executing in the now, whilst not losing sight of the long-term vision and value creation opportunity for the organisation.

And I would also agree completely with Ioannis that this is about accountability. It's also about transparency and being really honest about where you are in your journey, particularly in the wake of all of this scepticism around ESG.

And the final thing I would say is don't lose sight of the systemic challenge and the need to create collaborations of multi-stakeholder collaborations, bringing others together to really try and tackle this problem, because in a sense, there is strength in numbers, and that's the only way we'll really get the job done.

Sergei Guriev [00:29:38:15]

Thank you very much, Anna. Thank you very much, Ioannis. And thank you, our audience, for joining us today on Think Ahead.

Please join the conversation and tell us about how your organisation is responding to the shifting ESG landscape. Have recent pressures changed how you think about sustainability, governance, or long-term strategy?

Please share your insights by leaving a comment on Spotify or YouTube and use the hashtag, #ThinkAhead. Let's keep exploring what it means to lead with purpose in the era of uncertainty and disruption.

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